

ICC Docket No. 14-0496
Joint Applicants' Response to
Illinois Attorney General's Second Set of Data Requests AG 2.01-2.13
Dated: September 8, 2014

REQUEST NO. AG 2.13:

Referring to JA Ex. 4.1 *CONFIDENTIAL*, Page 4, please provide a complete explanation of what the statement "Impact begins in 2015, credits indicate pre-tax reduction in O&M" with regard to the ICE project means. The response should specify what the referenced credits represent and describe why the credits "indicate pre-tax reduction in O&M."

RESPONSE:

The ICE 2016 project estimated net benefits beginning in 2015. The initial O&M estimate in the forecast years was reduced by the estimated amount of net benefit of the project. The net benefit (a credit to expense, i.e. pre-tax reduction in O&M) was derived from forecasted system savings greater than forecasted system costs.

ICC Docket No. 14-0496
Joint Applicants' Response to
Illinois Attorney General's Third Set of Data Requests AG 3.01-3.06
Dated: October 7, 2014

REQUEST NO. AG 3.05:

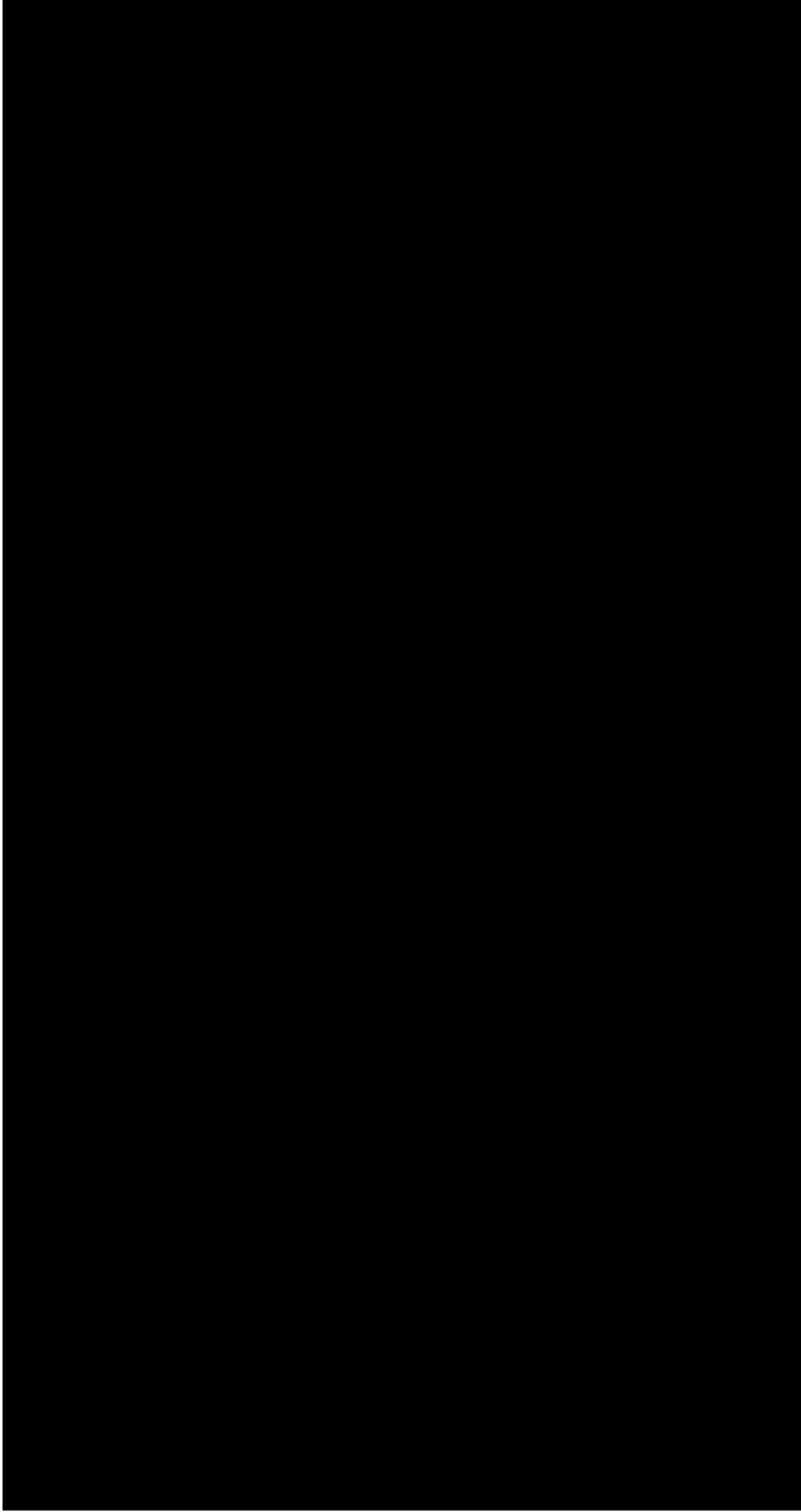
Referring to the response to AG Data Request 2.13, please provide any studies and/or analyses supporting the statement that “credits indicate pre-tax reduction in O&M” with regard to the ICE project. The response should identify and quantify the “forecasted system savings greater than forecasted system costs” referenced in the response for each year included in the forecasts.

RESPONSE:

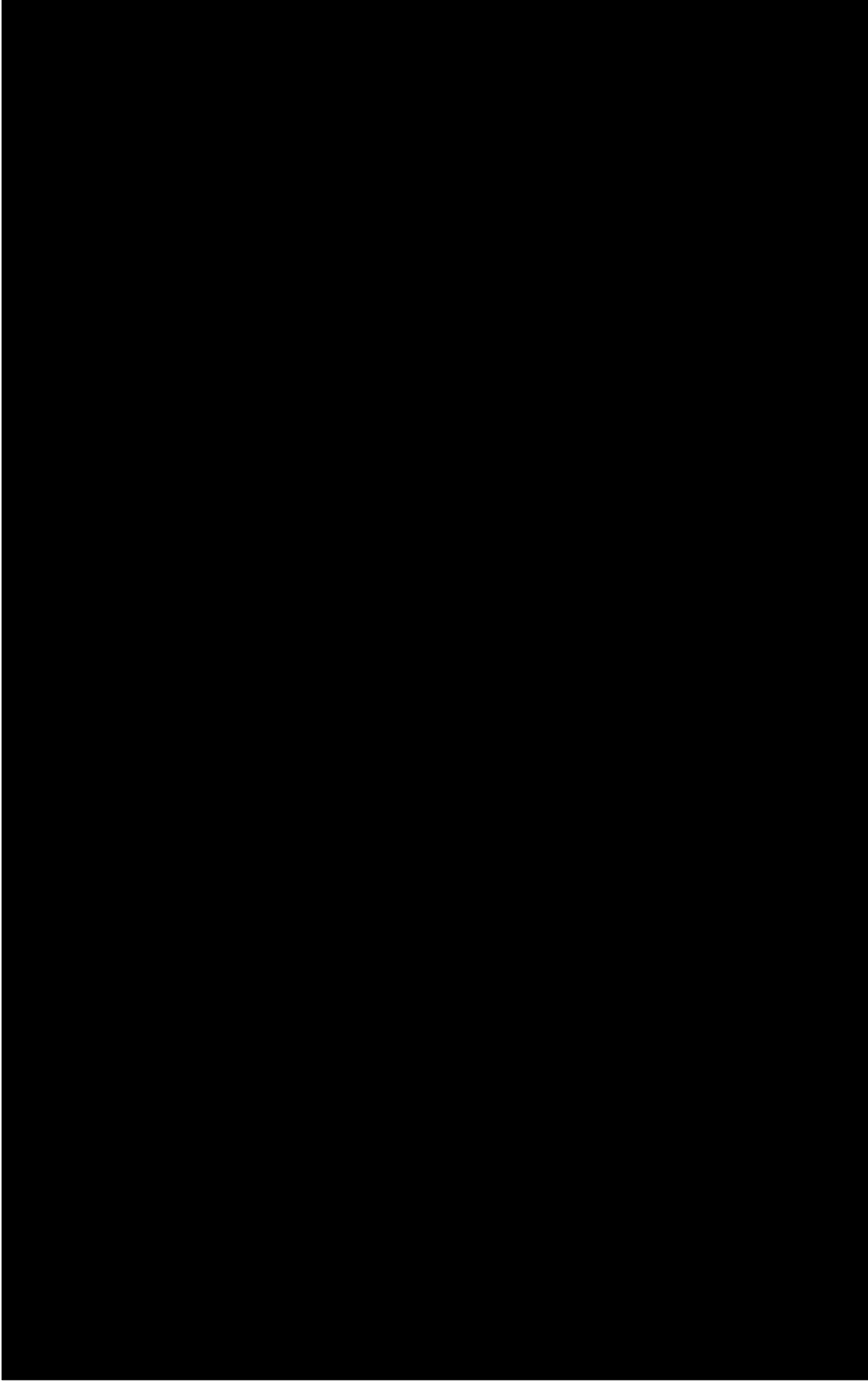
Please see JA AG 3.05 Attach 01 CONFIDENTIAL showing a net reduction in O&M allocable to PGL by year on row 112 and allocable to NSG on row 116, supporting the statement that “credits indicate pre-tax reductions in O&M” with respect to the ICE project.

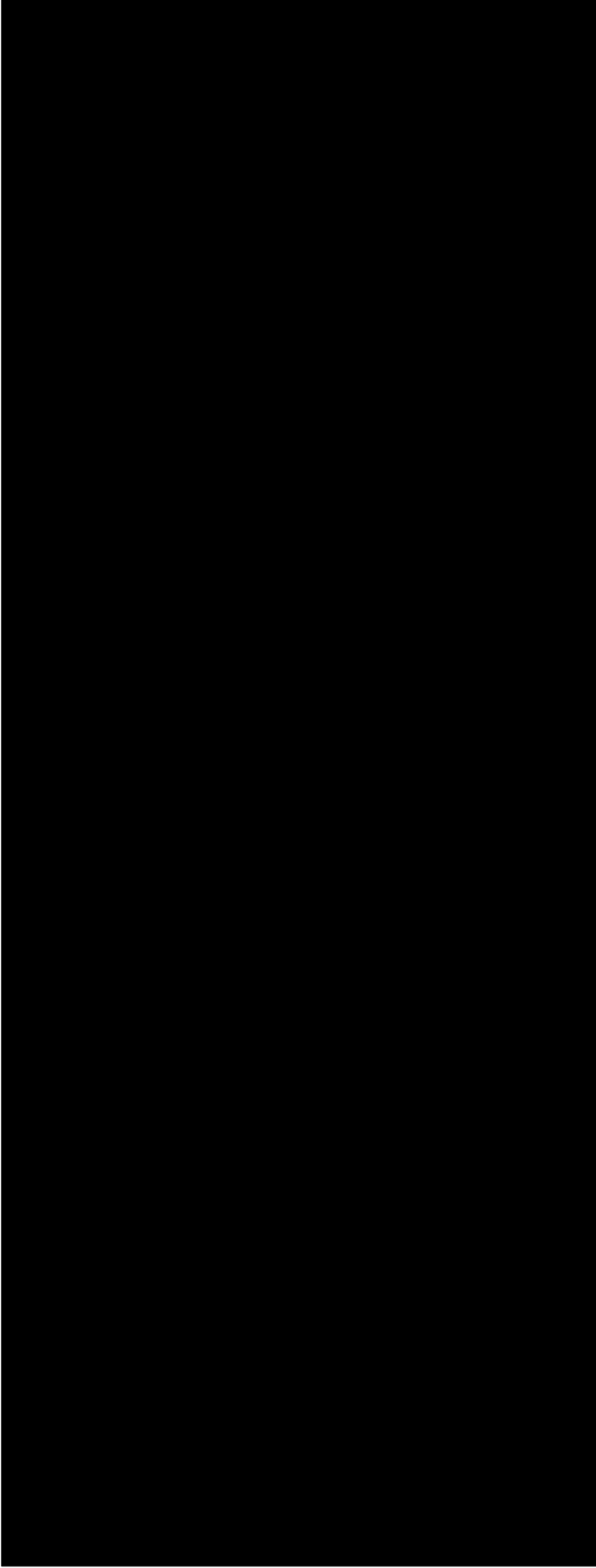
Integrus Business Support
ICE 2016 System Costs and Other Activity
Allocation to Utilities
Pre-Tax Dollars

Preliminary and Confidential 9/17/12
Consolidate on One Operating Model by 2016



Project O&M and Estimated Future Benefits





ENTITY COST OF CAPITAL

UTILITY CAPITAL STRUCTURE

Utility Common Stock	WPSC	UPPCO	MGUC	MERC	PGL	NSG
Preferred Stock	51.65%	54.90%	50.26%	50.48%	49.00%	50.00%
Long Term Debt	2.69%	37.03%	47.04%	44.60%	48.40%	46.10%
Short Term Debt - Other	2.81%	8.07%	2.70%	4.93%	2.60%	3.90%
Total	100.00%	100.00%	100.00%	100.01%	100.00%	100.00%

PRE-TAX RATE

Common	17.18%	16.70%	17.60%	16.53%	16.53%	16.16%
Preferred Stock	10.14%					
Long Term Debt	5.59%	6.33%	5.90%	6.55%	4.62%	5.51%
Short Term Debt - Other	0.55%	0.22%	1.36%	0.18%	2.62%	4.04%

INCOME TAX RATE

	40.06%	38.91%	38.91%	41.31%	42.82%	41.52%
--	--------	--------	--------	--------	--------	--------

AFTER-TAX RATE

Common	10.30%	10.20%	10.75%	9.70%	9.45%	9.45%
Preferred Stock	6.08%					
Long Term Debt	3.35%	3.87%	3.60%	3.85%	2.64%	3.22%
Short Term Debt - Other	0.33%	0.13%	0.83%	0.11%	1.50%	2.36%

WEIGHTED

PRE-TAX COMPONENTS

Common	8.88%	9.17%	8.84%	8.34%	8.10%	8.08%
Preferred Stock	0.27%					
Long Term Debt	2.40%	2.34%	2.78%	2.92%	2.24%	2.54%
Short Term Debt - Other	0.02%	0.02%	0.04%	0.01%	0.07%	0.16%
Wtd Pre-Tax Cost of Capital	11.56%	11.53%	11.66%	11.28%	10.40%	10.78%

WEIGHTED

AFTER-TAX COMPONENTS

Common	5.32%	5.60%	5.40%	4.90%	4.63%	4.73%
Preferred Stock	0.16%					
Long Term Debt	1.44%	1.43%	1.70%	1.72%	1.28%	1.49%
Short Term Debt - Other	0.01%	0.01%	0.02%	0.01%	0.04%	0.09%
Wtd After-Tax Cost of Capital	6.93%	7.04%	7.12%	6.62%	5.95%	6.30%

WEIGHTED

COST OF CAPITAL

Pre-tax	11.56%	11.53%	11.66%	11.28%	10.40%	10.78%
After-Tax	6.93%	7.04%	7.12%	6.62%	5.95%	6.30%
Weighted cost per order	7.90%	7.96%	8.22%	7.83%	6.93%	7.42%
Weighted cost including def-tax per order		7.12%	7.16%			
Pre-tax average of the utilities IBS supports						11.20%

WPSC - PSCW - 6690-UR-120 01/13/11

UPPCO - MPSC - U-16417 settlement

MGU - MPSC - U-15990 settlement

MERC - Capital Structure and debt costs per GR-08-835 062909 rate order, apportioned tax rate per 2008 actual data

PGL and NSG - per ICC 1/10/12 decision cases 11-0280 & 11-0281

* see Schd1 U-16417_Exhibit_A11-F16(SSD)_2012_Adjusted_for_Staff_Position-Final

** see Schd1_Filed_Settled in MGU rate case directory

ICC Docket No. 14-0496
Joint Applicants' Response to
Illinois Attorney General's Third Set of Data Requests AG 3.01-3.06
Dated: October 7, 2014

REQUEST NO. AG 3.06:

Referring to the response to AG Data Request 2.13, to the extent that the assumptions (such as the ICE in-service date) on which the statement in JA Ex. 4.1 CONFIDENTIAL that "Impact begins in 2015, credits indicate pre-tax reduction in O&M" have been revised, please describe such revisions, identify when the revisions took place, and quantify the effect of the revisions on the forecasted year-by-year costs and benefits of the ICE project.

RESPONSE:

Subsequent to the compilation of data underlying JA AG 3.05 Attach 01 CONFIDENTIAL, the estimated ICE implementation date for the Gas Companies has moved from the second to the third quarter of 2015. The key factor in understanding JA Ex. 4.1 CONFIDENTIAL, as it pertains to ICE, and JA AG 3.05 Attach 01 CONFIDENTIAL, is to distinguish "Hard O&M Benefits" (see row 75 of JA AG 3.05 Attach 01 CONFIDENTIAL) from avoided costs (see rows 76 and 77 of JA AG 3.05 Attach 01 CONFIDENTIAL). Consideration of avoided costs shows benefits in 2015. However, "Hard O&M Benefits" are not expected to occur until 2016.

"Avoided costs" are costs that Integrys has not incurred but which it would incur absent ICE project implementation, e.g., hardware upgrades or bill print upgrades. "Hard O&M benefits" are savings from eliminating expenses that Integrys is incurring prior to ICE implementation, e.g., IT costs to maintain multiple customer information systems.

In addition, the statement in JA Ex. 4.1 CONFIDENTIAL that "Impact begins in 2015, credits indicate pre-tax reduction in O&M" also refers to the fact that O&M expenses in 2015 (and later years) needed to exclude "2014 project O&M costs plus 2% inflation" (see rows 104 through 110 in JA AG 3.05 Attach 01 CONFIDENTIAL) because such 2014 costs are not recurring in 2015 but, mechanically in the Gas Companies' long-term projections, would have initially been assumed recurring, as total O&M expense for 2015 (and later years) is first based upon the last budgeted year (i.e., 2014) plus an inflation assumption.

ICC Docket No. 14-0496
Joint Applicants' Response to
Illinois Attorney General's Fourth Set of Data Requests AG 5.01- 5.17
Dated: October 24, 2014

REQUEST NO. AG 5.05:

Referring to JA AG 3.05 Attach 01CONFIDENTIAL, Cell W5, please explain why the beginning IBS Asset Value is input as \$76,736,502 minus the total project O&M for the years 2012-2015.

RESPONSE:

Joint Applicants object to this data request on the grounds that the information sought is beyond the scope of and not relevant to the subject matter of this proceeding and is not reasonably calculated to lead to the discovery of relevant and admissible evidence. Joint Applicants note that the response to AG 3.05 was support for an item in Joint Applicants' Ex. 4.1 and that data underlying Ex. 4.1 were from the long-term financial forecast. Without waiving this objection or the Joint Applicants' General Objections, the Joint Applicants state as follows:

The amount, \$76,736,502 in cell W5, represents the total projected expenditures for the ICE project. Of these expenditures, approximately \$64.3 million met the criteria for capitalization. Therefore, only the forecasted capital expenditures were included in the ROA and depreciation calculations (top section) of JA AG 3.05 Attach 01CONFIDENTIAL.

ICC Docket No. 14-0496
Joint Applicants' Response to
Illinois Attorney General's Fourth Set of Data Requests AG 5.01- 5.17
Dated: October 24, 2014

REQUEST NO. AG 5.06:

Referring to JA AG 3.05 Attach 01CONFIDENTIAL, please explain why no accumulated deferred income taxes are taken into account in the calculation of the investment base on which the return is calculated.

RESPONSE:

Joint Applicants object to this data request on the grounds that the information sought is beyond the scope of and not relevant to the subject matter of this proceeding and is not reasonably calculated to lead to the discovery of relevant and admissible evidence. Joint Applicants note that the response to AG 3.05 was support for an item in Joint Applicants' Ex. 4.1 and that data underlying Ex. 4.1 were from the long-term financial forecast. Without waiving this objection or the Joint Applicants' General Objections, the Joint Applicants state as follows:

JA AG 3.05 Attach 01CONFIDENTIAL was prepared in September of 2012, at which time high level assumptions were made about costs and benefits and the timing of each over the project's construction period and subsequent useful life. The intent of JA AG 3.05 Attach 01CONFIDENTIAL was to provide a high level analysis for senior leaders to see the potential financial impact of the ICE project on Integrys' six utilities and help them with their decision making process related to the project. The assumptions provided relevant and material information to senior leaders about the potential financial impact of the ICE project over a long-term planning horizon.

The costs and benefits were aggregated and allocated to the individual utilities based on the IBS indirect allocation methodology in place at the time. No specific project costs or benefits were directly assigned to any one utility nor was consideration given to accumulated deferred income tax impacts.

ICC Docket No. 14-0496
Joint Applicants' Response to
Illinois Attorney General's Fourth Set of Data Requests AG 5.01- 5.17
Dated: October 24, 2014

REQUEST NO. AG 5.07:

Referring to JA AG 3.05 Attach 01CONFIDENTIAL, please explain why the return on investment is calculated on the net plant balance as of the beginning of the year rather than the average net plant balance for the year.

RESPONSE:

Joint Applicants object to this data request on the grounds that the information sought is beyond the scope of and not relevant to the subject matter of this proceeding and is not reasonably calculated to lead to the discovery of relevant and admissible evidence. Joint Applicants note that the response to AG 3.05 was support for an item in Joint Applicants' Ex. 4.1 and that data underlying Ex. 4.1 were from the long-term financial forecast. Without waiving this objection or the Joint Applicants' General Objections, the Joint Applicants state as follows:

JA AG 3.05 Attach 01CONFIDENTIAL was prepared in September of 2012, at which time high level assumptions were made about costs and benefits and the timing of each over the project's construction period and subsequent useful life. See JA AG 5.06 for the intent of JA AG 3.05 Attach 01CONFIDENTIAL . That document assumed that the ICE project would be in service on January 1, 2016. A simplified calculation was used in JA AG 3.05 Attach 01CONFIDENTIAL to calculate return on investment which was on the net plant balance as of the beginning of the year.

ICC Docket No. 14-0496
Joint Applicants' Response to
Illinois Attorney General's Fourth Set of Data Requests AG 5.01- 5.17
Dated: October 24, 2014

REQUEST NO. AG 5.08:

Referring to JA AG 3.05 Attach 01CONFIDENTIAL, please explain why the return on investment and depreciation are shown as commencing in 2016, whereas in Docket Nos. 14-0224/14-0225 (consol.) Peoples Gas and North Shore assumed a full year of depreciation and return in 2015.

RESPONSE:

Joint Applicants object to this data request on the grounds that the information sought is beyond the scope of and not relevant to the subject matter of this proceeding and is not reasonably calculated to lead to the discovery of relevant and admissible evidence. Joint Applicants note that the response to AG 3.05 was support for an item in Joint Applicants' Ex. 4.1 and that data underlying Ex. 4.1 were from the long-term financial forecast. The rate case data in the Gas Companies' Docket Nos. 14-0224/14-0225 (cons.) are to support a forecasted 2015 test year. The documents will necessarily be inconsistent because they were prepared at different points in time. Without waiving this objection or the Joint Applicants' General Objections, the Joint Applicants state as follows:

Please see the response to AG 5.07. JA AG 3.05 Attach 01CONFIDENTIAL was prepared in September of 2012. That document assumed that the ICE project would be in service on January 1, 2016. See JA AG 5.06 for the intent of JA AG 3.05 Attach 01CONFIDENTIAL.

Support for the ICE projects costs in Docket Nos. 14-0224/14-0225 (cons.) (2015 test year rate case) was prepared in the Fall of 2013. Based on information available at that time, the expected ICE in service date was January 2015.

ICC Docket No. 14-0496
Joint Applicants' Response to
Illinois Attorney General's Fourth Set of Data Requests AG 5.01- 5.17
Dated: October 24, 2014

REQUEST NO. AG 5.09:

Referring to JA AG 3.05 Attach 01CONFIDENTIAL, please reconcile the annual return on investment and depreciation to the return on investment and depreciation allocated to Peoples Gas and North Shore in Docket Nos. 14-0224/14-0225 (consol.) as shown in PGL DLH 5.07 Attach 1.

RESPONSE:

Joint Applicants object to this data request on the grounds that the information sought is beyond the scope of and not relevant to the subject matter of this proceeding and is not reasonably calculated to lead to the discovery of relevant and admissible evidence. Joint Applicants note that the response to AG 3.05 was support for an item in Joint Applicants' Ex. 4.1 and that data underlying Ex. 4.1 were from the long-term financial forecast. The rate case data in the Gas Companies' Docket Nos. 14-0224/14-0225 (cons.) are to support a forecasted 2015 test year. The documents will necessarily be inconsistent because they were prepared at different points in time. Without waiving this objection or the Joint Applicants' General Objections, the Joint Applicants state as follows:

Please see the response to AG 5.08.

ICC Docket No. 14-0496
Joint Applicants' Response to
Illinois Attorney General's Fourth Set of Data Requests AG 5.01- 5.17
Dated: October 24, 2014

REQUEST NO. AG 5.12:

Referring to JA AG 3.05 Attach 01CONFIDENTIAL, please explain why the project O&M are shown as ending in 2015, whereas in Docket Nos. 14-0224/14-0225 (consol.) Peoples Gas and North Shore presented the ICE O&M as normal, recurring expenses that would be incurred on a continuing basis.

RESPONSE:

Joint Applicants object to this data request on the grounds that the information sought is beyond the scope of and not relevant to the subject matter of this proceeding and is not reasonably calculated to lead to the discovery of relevant and admissible evidence. Joint Applicants note that the response to AG 3.05 was support for an item in Joint Applicants' Ex. 4.1 and that data underlying Ex. 4.1 were from the long-term financial forecast, which was prepared using 2012 data. The rate case data in the Gas Companies' Docket Nos. 14-0224/14-0225 (cons.) ("Rate Case") are to support a forecasted 2015 test year and used 2013 information about the project. The documents will necessarily be inconsistent because they were prepared at different points in time. Without waiving this objection or the Joint Applicants' General Objections, the Joint Applicants state as follows:

Please see the responses to AG 5.06, 5.07 and 5.08. In the rate case, Peoples Gas and North Shore did not request recovery of total ICE O&M costs but only of certain non-labor O&M costs associated with project organizational readiness. Peoples Gas and North Shore did not present such costs as recurring.

ICC Docket No. 14-0496
Joint Applicants' Response to
Illinois Attorney General's Fourth Set of Data Requests AG 5.01- 5.17
Dated: October 24, 2014

REQUEST NO. AG 5.13:

Referring to JA AG 3.05 Attach 01CONFIDENTIAL, please reconcile the 2015 ICE O&M allocated to Peoples Gas (Cell I63) and North Shore (Cell I67) to the 2015 non-labor ICE O&M allocated to Peoples Gas (PGL AG 1.62) and North Shore (NS AG 1.54) in Docket Nos. 14-0224/14-0225 (consol.).

RESPONSE:

Joint Applicants object to this data request on the grounds that the information sought is beyond the scope of and not relevant to the subject matter of this proceeding and is not reasonably calculated to lead to the discovery of relevant and admissible evidence. Joint Applicants note that the response to AG 3.05 was support for an item in Joint Applicants' Ex. 4.1 and that data underlying Ex. 4.1 were from the long-term financial forecast, which was prepared using 2012 data. The rate case data in the Gas Companies' Docket Nos. 14-0224/14-0225 (cons.) are to support a forecasted 2015 test year and used 2013 information about the project. The documents will necessarily be inconsistent because they were prepared at different points in time and for different purposes. Without waiving this objection or the Joint Applicants' General Objections, the Joint Applicants state as follows:

Please see the responses to AG 5.06, 5.07, 5.08, and 5.12.

ICC Docket No. 14-0496
Joint Applicants' Response to
Illinois Attorney General's Fourth Set of Data Requests AG 5.01- 5.17
Dated: October 24, 2014

REQUEST NO. AG 5.14:

Referring to JA AG 3.05 Attach 01CONFIDENTIAL, please provide documentation and workpapers supporting the 2016 "Hard O&M Benefits" in Cell J75

RESPONSE:

Joint Applicants object to this data request on the grounds that the information sought is beyond the scope of and not relevant to the subject matter of this proceeding and is not reasonably calculated to lead to the discovery of relevant and admissible evidence. Without waiving this objection or the Joint Applicants' General Objections, the Joint Applicants state as follows:

This was the estimated breakdown of the annual O&M reductions from the ICE Business Requirement Definition phase that comprise the forecasted \$16,050,988 annual savings for all Integrys utilities. The "hard O&M benefits" were based on a 2011 and 2012 budget.

O&M Saving Type/Category	Annual O&M Saving
Software	\$750,000
Invoices	\$9,835,488
Labor	\$4,715,500
Cost of Working Capital	\$450,000
Additional Revenue	\$300,000
Total	\$16,050,988

The type and category of savings that are shown above for the forecast O&M savings may change during the project's life cycle.

ICC Docket No. 14-0496
Joint Applicants' Response to
Illinois Attorney General's Fourth Set of Data Requests AG 5.01- 5.17
Dated: October 24, 2014

REQUEST NO. AG 5.15:

Referring to JA AG 3.05 Attach 01CONFIDENTIAL, were the 2015 avoided capital costs (Cell I77) taken into account in the determination of revenue requirements in Docket Nos. 14-0224/14-0225 (consol.)? If the response is affirmative, please demonstrate how the avoided capital costs were taken into account. If the response is negative, please explain why the avoided capital costs were not taken into account.

RESPONSE:

Joint Applicants object to this data request on the grounds that the information sought is beyond the scope of and not relevant to the subject matter of this proceeding and is not reasonably calculated to lead to the discovery of relevant and admissible evidence. Joint Applicants note that the response to AG 3.05 was support for an item in Joint Applicants' Ex. 4.1 and that data underlying Ex. 4.1 were from the long-term financial forecast. The rate case data in the Gas Companies' Docket Nos. 14-0224/14-0225 (cons.) are to support a forecasted 2015 test year. The documents will necessarily be inconsistent because they were prepared at different points in time. Without waiving this objection or the Joint Applicants' General Objections, the Joint Applicants state as follows:

Please see the response to AG 3.06, which explains that "avoided costs" are costs that Integrys has not incurred but which it would incur absent ICE project implementation. This applies to the 2015 avoided depreciation expense of \$3,609,699 in cell I77. The rate case (Docket Nos. 14-0224/14-0225 (cons.)), based on a 2015 test year, assumes ICE project implementation in 2015. Since avoided costs, by their nature, have not been incurred and will not be incurred in 2015, those avoided costs were properly not taken into account in the determination of the test year revenue requirements. Forecasted 2015 depreciation expense in the rate case already does not include estimated incremental depreciation expense associated with those avoided capital costs, an estimate only required under the scenario of no ICE project implementation.